

Risk Sharing

Section 542(b) and 542(c)

U.S. Department of Housing and Urban Development



Looking to do more with less? Our risk sharing programs can leverage limited local resources and help you dramatically increase the amount of affordable housing built. Partnering with FHA, state housing finance agencies and other qualified entities, such as Fannie Mae and Freddie Mac, are building more affordable housing. They have been for years.

The program is quite simple. Under the FHA risk sharing program, qualified agencies share the underwriting risk with FHA from 10% - 90%. In return, FHA provides mortgage insurance and credit enhancements (i.e. AAA bond rating). Also, when the agency agrees to share 50% or more of the risk, FHA allows the agency to underwrite, and close the loan according to their underwriting standards. FHA review is limited and timely.

Program Features

- Risk Sharing can leverage limited local financial resources
 - Partners who agree to share 50% or more of the risk may use their own underwriting standards
 - Risk sharing partners may place additional use restrictions on the mortgage
 - Program may be combined with other financing
 - Generates additional sources of revenue for participating agencies
- Risk sharing partners earn up to ½ of Mortgage Insurance Premium & all Servicing Fees

Success Stories - Local & National

- In 1999, under the 542(c) program, the State of Oregon Housing and Community Services Department will develop 11 projects totaling 1067 units, with total mortgages of \$36,928,500.00. They have completed three projects totaling 273 units, with total mortgages of \$12,200,000.00
- Between FY 1996 - 1999, FHA has insured \$1.2 billion under the program and issued approval of 257 projects with approximately 30,000 units

The Section 542 program provides mortgage insurance and credit enhancement for financing affordable multifamily housing to low-income families through a risk sharing partnership with a qualified participating entity (QPE) and or its approved lenders. Both the QPE and HFA can make affordable housing loans to investors, builders, developers, public entities, and private nonprofit corporations or associations under the respective risk sharing program. The eligible projects include new construction, substantial rehabilitation, refinancing, and housing for the elderly.

March 2000



For More Information:

Visit Our Website at www.hud.gov/local/sea/mfh/seamfhpg.html

Contact a Community Builder

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